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Summary

¶1. Maquila (apparel) exports, which account for 71 percent of El Salvador's exports, fell by 15.7 percent during the first nine months of CAFTA-DR, dragging down overall exports by 1 percent. Nonmaquila exports grew by 73.2 percent, much of the increase the result of third-country ethanol processed in El Salvador for re-export. The food and beverage sector showed dynamic growth thanks to CAFTA-DR, and a number of small and medium-sized businesses have expanded production and increased employment. However, El Salvador's refusal to allow U.S. poultry products to enter the country mars an otherwise positive record on CAFTA-DR implementation. The following paragraphs provide a sectoral view of CAFTA-DR using Central Bank data and firm-level information, as well as information on ongoing trade capacity building programs. End summary.

Maquila Exports Falter, but Investment Continues
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¶2. According to Central Bank data, for the nine-month period since CAFTA-DR entered into force Salvadoran exports to the United States (including maquila, apparel manufactured for export in a free trade zone using mostly imported components) decreased by 1 percent compared to March 1 - November 30, 2005, falling from $1.076 billion to $1.066 billion. Maquila exports fell 15.7 percent, from $898 million to $757 million, overshadowing the 73.2 percent increase in other exports, which grew from $178 million to $309 million. The maquila sector continues to consolidate in the face of Chinese competition, and the firms remaining are focusing on full-package assembly to take advantage of their proximity to the U.S. market. Textile and apparel exports produced by firms that use more local inputs (not located in free trade zones) doubled during the nine-month period, from $9 million to $13.5 million. Towel exports increased from $4.3 million to $6.6 million. There are a number of firm-specific examples of CAFTA-DR trade and investment in the textile and apparel sector:

- Youngone, a Korean company that specializes in wnter sport clothing, expanded its operations by nvesting $3.6 million and creating 500 new jobs uring 2006.
-- Fruit of the Loom expanded operatons by opening a packaging center and investing $.5 million. It created 600 direct and 1,200 indirect jobs.
-- Asheboro Elastics invested $3 millon and created 100 direct and 200 indirect jobs.
-- Two U.S.-based apparel companies established operations in El Salvador in 2006, employing 800 Salvadorans.
-- ADOC is a local shoe maker that has exported to the United States for several years. It reports increased sales of athletic shoes

thanks to a CAFTA-DR's elimination of a 28.5 percent tariff for that category. In addition, European shoe brands Callahan, Naturalizer, and Camper are contacting with ADOC to produce shoes for export to the United States.
-- Nina Simone, a Brazilian shoe manufacturer, plans to manufacture high-end shoes beginning in 2007. With total investment of about $3.5 million, the firm expects to create 400 jobs during the first year of operations. Company officials report they would not have invested in El Salvador had it not been for CAFTA-DR market access.

Ethanol Leads Non-Maquila Export Growth

¶3. Non-maquila exports increased 73 percent during the first nine months of CAFTA-DR. More than 90 percent of this increase is ethanol exports, which increased from $16.4 million to $136.4 million, a 732 percent increase. CAFTA-DR provides El Salvador with an export quota of 5.2 million gallons of ethanol in the first year with an annual increase of 1.3 million gallons every year. This ethanol must be processed in El Salvador, but not necessarily from locally grown raw inputs:

-- Two local companies, Grupo Liza and The Salvadoran Sugarcane Company (CASSA), have teamed with Cargill and a Brazlian Investor to establish American Renewable Fuel Suppliers (ARF) in Acajutla. The plant processes alcohol derived from Brazilian and Chinese sources.

Food and Beverage

¶4. Exports of food and beverage items such as cookies, pastries, sauces, soups, condiments, dairy products, juices, and a broad range of ethnic foods are booming under CAFTA-DR, growing 18.2 percent during the first nine-months from $76.6 million to $90.6. Although for many ethnic foods CBI already granted duty free access,

CAFTA-DR's permanent market access has been instrumental in providing stimulus to the sector. U.S. supermarkets such as Wal-Mart feature Salvadoran goods in certain parts of the United States, and one local exporter has even established its own distribution center in the United States.

¶5. Exports of dairy products, mostly cheese, increased by 298 percent from $162,000 to $648,000. Frozen bean exports, another typical ethnic food, grew by 23 percent to $1.1 million. Frozen fruit exports grew by 27 percent to $1.3 million. Cookies, pastries, and other prepared foods exports increased by 25 percent from $3.8 million to 4.7 million. Prepared fruits and vegetables, including juices, grew by 52 percent to $2.4 million. Other prepared foods including "tamales" and the local beverage "horchata" grew by 16 percent to reach $6.6 million. Although the value exported is still small for most of these goods, the potential market in the United States is large, given the 2 million Salvadorans estimated to be living there. Many of these companies export through associations with other small producers or seek marketing assistance from larger firms. The following are examples of food and beverage companies taking advantage of CAFTA-DR:

-- Bon Appetit, a large Salvadoran beverages producer and distributor, has been exporting fruit juice to the United States for several years. Tariff cuts under CAFTA-DR have allowed the company to lower prices and increase sales to supermarkets such as Wal-Mart, Publix, and Wynn Dixie located in areas of the United States with strong demand for Latin foods. In 2007, the firm plans to hire an additional 150 employees and begin exporting "horchata," a beverage popular among Salvadorans that previously faced a 23 percent tariff because of its high sugar content.
-- Arrocera San Francisco, one of the largest rice distributors in El Salvador, has expanded its product line to include seasoned rice blends and other products under the "Dona Lisa" brand name for export to the United States. A company official reports they have added 200 jobs since CAFTA-DR implementation. Recently, the company incorporated All Foods in the United States to serve as its U.S. distributor, and it plans to open up to five distribution centers in the United States.
-- Calvo Tuna of Spain has invested about $138 million in processing

facilities in El Salvador over the past few years. The company currently exports most of its production to the European Union but plans to begin exporting tuna packed in oil to the United States in 2007, taking advantage of duty-free access under CAFTA-DR.
-- Natural Union Brands, an association of six independent producers of organic and natural products, exported nearly $100,000 worth of diverse products such as baked goods, horchata, honey, soaps, spice, and concentrated lemon juice in 2006. They formed their association two years ago with support from EXPRO, USAID's export assistance program, and they currently receive support from the Salvadoran Government's Small and Medium Business National Commission (CONAMYPE). Forming an association has allowed them to offer a full product line to potential buyers and cut transaction costs dramatically. Natural Union Brands member companies already employ 175 people, and they forecast 25 percent growth in 2007.
-- Latin Food Distributors is a consortium of 11 micro and small businesses organized with assistance from USAID's EXPRO program. They exported $30,000 in food products to the ethnic supermarkets in the United States in 2006 including cookies, noodles, red beans, and spice mixes. In 2007, they believe exports will grow to $100,000.
-- Productos Especiales Salvadorenos, is another producer of horchata that reports increased sales thanks to CAFTA-DR.
-- Florence plans to begin exporting baked goods to the United States in March of 2007. The firm projects growth of 35 percent in 2007
-- Crio Inversiones is exporting frozen "pupusas" and "tamales" under the brand "Dona Lita." With assistance from USAID's EXPRO program, in 2006 they exported $39,000 worth of these staples of the Salvadoran diet to ethnic supermarkets in the United States.
-- Pahnas also exports frozen "pupusas" and "tamales." Over the last two years, the company has grown from 14 to 42 employees and has seen export sales increase from $200,000 to $800,000.
-- La Canasta exports ethnic foods and spice mixes to the United States. In the past year, the firm has grown from 12 to 84 employees.
-- Del Tropic Foods is a vegetable and fruit processor that exports frozen okra, peas, and shredded coconut to the United States. Thanks in part to CAFTA-DR's permanent trade benefits, the firm's okra exports grew by 25 percent in 2006.

Light Manufacturing

¶6. Costume jewelry exports grew by 187 percent to $6.4 million, while exports of knives and tools almost doubled from $1.4 million to $2.2 million. Exports of wire harnesses for motor vehicles, none

of which were exported in 2005, were $2.7 million over the nine-month period in 2006. Electronic parts exports grew by 207 percent to $4.5 million, while plastic exports increased 35 percent to $1 million. Toys and art (including handicrafts) exports grew by 76 percent and 92 percent respectively. These are examples of firms benefiting from CAFTA-DR:

-- Specialty Products, a division of the SIGMA/Q packaging company, manufactures and exports luxury packaging for jewelry, collectables, and other high-value items. Before CAFTA-DR went into force, the company's packaging faced a 16.7 percent tariff at the U.S. border. That tariff is now zero, and Specialty Products has seen a 30 percent increase in sales in the past year. A company official reports they will double their exports to the United States in 2007 and will employee at least 400 additional workers. They have already invested $2 million in a new production facility and will invest another $3 million this year.
--The Artisan Development Center of Guatajiagua, which brings together 900 mostly-female artisans, exported $15,000 in pottery to the United States in 2006. USAID's program with Aid to Artisans has provided assistance on quality control and marketing, helping to secure contracts with two large U.S. buyers.
-- Arnecom, a Mexican automotive parts company, established a joint venture with a Japanese firm in 2006 to assemble automobile wiring harnesses for export to the United States. With initial investment of $6 million, the facility will employ 2,000 workers.
-- Saturn Electronics also established a facility to assemble automobile wiring harnesses for export to the United States, and the plant currently employs approximately 150 workers

-- Implementos Agricolas CentroAmericanos (IMACASA) manufactures agricultural implements and knives--company officials report a large increase in export sales to the United States.

U.S. Exports Show Diversified Growth

¶7. Central Bank data show that U.S. exports to El Salvador, excluding maquila, grew by 27 percent during the first nine months of CAFTA-DR, from $1.1 billion to $1.4 billion. Including maquila, export growth was 13 percent, up from $1.7 to $1.9 billion. Most of the increase was concentrated in fuel (oil) exports, which increased from $58 million to $205 million, up 253 percent. U.S. exports of electric motors and electronic components grew by 36 percent to $184 million, while exports of engines and turbines grew by 14 percent to $200 million. Exports of basic grains such as yellow and white corn and rice increased by 14 percent from $135 million to $184 million. Other sectors that experienced growth during the period were plastics, paper and paperboard, food products, chemicals, steel and iron products, oils and fats, inorganic chemicals, binding, apparel, steel and iron, aluminum, shoes, precious metals, and jewelry. Lower prices for U.S. goods have resulted in sales growth for at least one U.S. retailer:

-- For PriceSmart (similar to Costco), CAFTA-DR has boosted sales in their two El Salvador stores, with half of their top 20 products increasing in sales by at least 30 percent due to the duty savings in product cost.

U.S. Poultry Products Denied Access

¶8. El Salvador's failure to allow imports of U.S. poultry products (in particular, table eggs and raw chicken and turkey) mars the country's otherwise positive record on CAFTA-DR implementation. For several months, Emboffs have worked with USDA and USTR on a series of technical discussions at both the Ministry of Economy and Ministry of Agriculture. In the Ambassador's first meeting with Minister of Economy de Gavidia in on February 2, he asked for the Minister's assistance in resolving this issue (reftel). On February 28 and March 1, Ambassador Glazer and EEB A/S Sullivan raised the issue directly with senior GOES officials, including Vice President de Escobar, Minister of Economy de Gavidia, and Minister of Agriculture Salaverria. On March 7, the Ambassador raised the issue directly with President Saca's chief of staff and principal economic advisor, Technical Secretary Eduardo Zablah. The Ambassador will continue to push this issue with senior GOES officials in support of ongoing USDA-led technical discussions.

Trade Capacity Building

¶9. The following are examples of trade capacity building programs in El Salvador:

-- The USAID Export Promotion Program supports and promotes exports of micro, small, and medium-sized business. It offers a variety of technical assistance services, the costs of which are shared by the beneficiaries. USAID launched the program in 2003, and to date it

has invested $12.4 million assisting 1,500 businesses and government officials. The program has also supported Salvadoran participation in international trade fairs and missions and has organized business roundtables in El Salvador. Moreover, USAID's Agricultural Diversification Program has helped over 1,500 farmers to shift into a diversified mix of high-value vegetable production, while USDA and USAID have also provided assistance on SPS issues for agricultural exports.

-- The GOES National Commission for Micro, Small, and Medium Businesses (CONAMYPE) plans to provide $6 million in technical assistance in 2007 through a Technical Assistance Fund (FAT).

-- The Ministry of Economy's Export Promotion Fund (FOEX) offers grants for activities that support small and medium-sized businesses.

-- EXPORTA is the GOES export promotion agency that provides services to exporters facilitating access to market information, business links, and other public and private mechanisms to support export development.

-- The Inter-American Development Bank (IDB) is working with COEXPORT, a local association of exporters, to implement a Central American Small and Medium Business Assistance Program that would provide $4.4 million for training about on how to meet labeling and other technical requirements to export to the United States.
-- In 2007, Salvadoran exporters plan to participate in 24 fairs and commercial missions with support from the GOES Productive Development Fund (FONDEPRO), which offers $3.5 million to finance up to 70 percent of the exporters' costs of participation. FONDEPRO will also provide $43.7 million for technical assistance and financing for innovative private-sector investments.

Comment

¶10. Most firms currently benefiting from CAFTA-DR had previously exported to the United States but are now taking advantage of the agreement's preferential access to increase sales and make new investments. Small and medium-sized businesses have especially seen growth in the food and beverage sector, catering to the Salvadoran ethnic market in the United States. Some estimate that the acquisitive power of the some 1.5 million Salvadorans in the United States matches that of the 6 million living in El Salvador, making this ethnic market lucrative for years to come and a potential toe-hold in the United States from which to expand sales to other consumer groups.

¶11. It is still early, only one year since CAFTA-DR entered into force here, but the stage is now set for increased growth in El Salvador through trade with the United States. In 2007, the GOES hopes to surpass last year's 4.2 percent GDP growth, the best in a decade. The next step we hope to see is more investment from prominent Salvadoran families to take advantage of CAFTA-DR opportunities, just as the Duenas family (owners of CASSA) has in bio-fuels. Throughout El Salvador's history, these families have shown a remarkable ability to recognize and seize opportunity, whether it be cotton, coffee, sugar, financial services, or real estate development. The risk, however, is that, given the criminal situation in El Salvador, they view their best opportunity not here in El Salvador but in other international markets where they believe they will get better returns on their investments. In addition, through trade and other capacity building programs we hope to extend employment and business opportunities to other Salvadorans who have not fully experienced the benefits of free trade. End comment.

Glazer